Draft Application Paper on climate risk market conduct issues in the insurance sector

Questions	Comments
1	While this AP focuses on market conduct related to climate change, it is our understanding that each jurisdiction already has regulations in place to protect consumers and appropriate supervision based on these regulations. Therefore, a new supervisory and regulatory framework is not needed for climate risk market conduct, which is essentially within the scope of existing regulations and supervision for consumer protection.
5	We agree that it is important to consider the proportionality principle in insurance supervision with respect to market conduct issues, and that flexibility is ensured to respond to market conditions in each jurisdiction. In addition, among consumers, individuals (retail), small businesses, and large businesses, will inevitably differ in their level of knowledge and awareness. This difference should be taken into account in supervision.
7	Greenwashing is an extremely serious issue for consumer protection and a sound insurance market. Some jurisdictions are actively taking measures to address it, including movement toward legislation. However, it is not necessarily appropriate to determine that "greenwashing is widely recognised by...society in general" (as stated in Paragraph 10). In addition, the detailed definition of greenwashing and the nature and extent of responses to it are likely to vary from jurisdiction to jurisdiction. Therefore, insurance supervisors should give due consideration to the laws and regulations and market conditions of each jurisdiction.
8	Each jurisdiction already has consumer protection regulations and appropriate supervision in place based on these regulations. For greenwashing, we agree with the approach of first considering how to respond within the framework of existing regulations and supervision, and then examining whether new tools, policies, or regulations are required. In addition, we suggest adding objective facts and data regarding "An increase in consumer appetite for products with sustainability features" in Paragraph 9 to make the description more persuasive. It should be noted that the degree of any such increase may differ by region.
9	In responding to greenwashing, it would be useful to clarify its definition and characteristics, to create common criteria to determine if a product has sustainable features, and to describe additional concrete examples. On the other hand, as part of the process, it would be desirable to fully consider the legal system and market characteristics of each jurisdiction. In promoting the development of a definition of greenwashing and a list of its common characteristics, it is necessary to cooperate with other financial and non-financial sectors across industry boundaries rather than the insurance sector alone. It would be better to establish a set of high-level principles, etc. at the global level, on which each jurisdiction's definition is based, and then develop a definition appropriate to each jurisdiction, taking into account the specific circumstances.

	Supervisory authorities should also work with stakeholders, including the insurance industry, when promoting the development of standards. Consideration should also be given to the possibility that different standards could be set depending on type of insurance product. As for the three examples of what sustainability representations may portray in a misleading way (in Paragraph 24), the second and third points should be revised in line with the first point, by using expressions such as "deceivingly advertising" and "incorrectly highlighting", etc. to clarify that they are misleading. Furthermore, we suggest adding "with no supporting information" to the second point. In addition, we suggest deleting the reference to "carbon neutral" in the second point, as it may be taken as a misleading example.
10	The contents of "Recommendations" in this section are descriptions of specific products in some jurisdictions, and do not seem to apply to products in general in jurisdictions around the world. Therefore, we suggest clarifying that Paragraphs 35 - 41 are aimed at introducing the fact that there are jurisdictions that are taking such measures, by positioning these paragraphs in a column/box separated from the Recommendations. While Paragraph 33 states "Supervisors should review whether there is a risk of greenwashing in any stage of the product design process", when regulations and supervision are already appropriately in place to protect consumers, excessive time should not be spent verifying sustainability. While Paragraph 35 states "Insurers should assess whether the product's sustainability features are in line with the sustainability preferences or objectives of the target market", it is difficult to measure sustainability preferences, so we oppose any restrictions on product development and design on this basis. In the first place, insurance companies are required to offer products that meet customer needs, not only from a sustainability perspective, and act in accordance with this principle. In addition, it should be noted that, in commercial lines, insurers may be required to develop products in an agile manner for niche needs, and especially in specialty and miscellaneous casualty insurance, etc., best practices may not exist in some cases, which could make insurance companies' response difficult. What "governance" specifically means in the context of Paragraph 36 should be clarified. As for Paragraph 37 ("...the product assessment should ensure that both the sustainability preferences and investment risk appetite are aligned with the target market's needs, objectives and characteristics. For example, the investment strategy chosen to address the sustainability preferences may impact the overall level of risk of the investments of a product"), please indicate whether this description refers to investments in relation to products

	in separate accounts of life insurance companies and in savings accounts of non-life insurance companies, or whether it refers to investments including general accounts as well. Also, please provide more specific examples to facilitate understanding.
11	While Paragraph 44 encourages insurers to report on progress in meeting their sustainability-related commitments to prevent overstatement of sustainability-related initiatives, such a report itself could induce overstatement to make their initiatives look better. Therefore, we suggest revising the sentence, for example, as follows: "...may encourage insurers to report on progress, backed by fact-based supporting information, in meeting their sustainability-related commitments".
12	It is extremely important to explain the rationale for sustainability representations and to provide relevant information in a timely manner so as not to mislead consumers about insurance products and insurers' activities with respect to sustainability. To this end, it would be useful to develop a common framework and standards at the jurisdictional level in which the legal system, regulations, and market characteristics of the jurisdiction in question should be fully considered. In Paragraph 50, sustainability disclosure requirements for all investment products are included as one of the elements of a common sustainability normative framework. The scope ("all investment products") is too broad, and should be limited to products claiming sustainability. While Paragraph 52 states "Supervisors should also require that any sustainability-related information is provided", the scope is too broad. We suggest replacing "any" with "material". While Paragraph 55 describes information to be included in investment fund brochures related to insurance products, in light of the nature of an application paper, the description is excessively detailed. In addition, it seems to relate to cases in some jurisdictions and is not considered to be applicable to all jurisdictions in the world. Therefore, we suggest revising the second sentence of the paragraph as follows: "Taking each market feature into account, supervisors could require that investment fund brochures include information which is considered critical for sustainable investment, for example:". Subsequently, it should be clarified that the following four bullet points are intended to show examples.
14	In this section, some examples are cited as emerging conduct risks for consumers because of NatCat. Many are thought to be related to low awareness and limited understanding among consumers. Improving consumer awareness is extremely important, and the private insurance sector has a great role to play in this, but it is an issue that should be addressed by multiple stakeholders, including the public sector. Furthermore, we consider low consumer awareness itself does not necessarily constitute a conduct risk.

	Sudden price increases due to the increased frequency and scale of NatCat events is also cited as a conduct risk. However, external factors such as the reinsurance market also play a major role, and if the risk is properly reflected, it does not necessarily fall under the category of conduct risk. We recognize that this issue is also one that must be resolved by multiple stakeholders in the public and private sectors.
15	In order to narrow protection gaps, it is important to improve consumer understanding of insurance products and coverage. To achieve this, it is useful to provide easy-to-understand products using plain language. As what is explained in Paragraph 66 is overly prescriptive, the second and subsequent sentences of the paragraph should be deleted. While Paragraph 67 states that supervisors should monitor to ensure that vague terms such as "similar events" are not used, in practice, many clauses use wording such as "...and similar thereto" after listing various elements. It is not realistic to mechanically eliminate all of these. It is the responsibility of insurance companies to use terms that are not misleading to consumers. We understand this paragraph to mean that what is done appropriately within the framework of existing consumer protection regulations and supervision should also be done in the context of natural disasters. The introduction of new exclusions to limit risk exposure is described as “risk", but controlling exposure is an extremely important function of insurer risk management, and from the standpoint of insurers, the act itself does not constitute risk. Therefore, we suggest revising the first sentence of Paragraph 64, for example, as follows: "At the same time, there are some cases that insurers may...".
17	The provision of affordable insurance coverage (affordability) is important to closing protection gaps. However, when the frequency and severity of NatCat events are at high levels, premiums are to be set to appropriately reflect such conditions. It is also necessary to consider the facts that there are limits to risk measurements using actuarial models due to uncertainties associated with climate change, and that there is significant impact of the external environment, such as the reinsurance market. In addition, the AP should also refer to the limitations on what insurers can do alone, and the necessity of multi-stakeholder efforts. For example, if disaster prevention and mitigation efforts by national and local governments, as well as insurance companies can reduce damages, this could result in lower insurance premiums.
18	As it is important to improve consumer awareness and knowledge so that they can access appropriate insurance products, efforts of multiple stakeholders, including supervisors and insurers, are required. It is important from a consumer protection perspective for insurers to provide NatCat cover in response to consumer needs. On the other hand,

	consideration should be given to the fact that there are limits to the exposure that insurers can retain depending on their capital, solvency, and risk profile. Furthermore, conditions in the reinsurance market can also affect the coverage they can provide. While the second sentence of paragraph 91 states "Such reviews are regularly carried out without taking into account the different types of consumer needs and objectives", it is unlikely that such regular reviews are conducted generally in jurisdictions across the world. The sentence should be deleted, as it is misleading. In addition, while the first sentence states "insurers are often required to review their terms and conditions to avoid losses due to ambiguous contractual terms", this is also not a general practice in jurisdictions across the world. We suggest changing the phrases to "to avoid further losses due to unintended interpretation of contractual terms" and "insurers may review", etc. As for Paragraph 92, when supervisors develop and use tools to make it easy to compare insurance products offering NatCat protection, it is necessary to be cautious not to recommend products of specific companies. If an appropriate comparison is not ensured, such tools should not be developed. As for Paragraph 95, while insurers need to take market needs and other factors into account when developing and reviewing their products, they also need to consider the possibility that certain risks may no longer be insurable under particular circumstances.
19	"Build Back Better" after a natural disaster is an important initiative to develop a resilient society, and the use of insurance is an option to promote this initiative. This issue is not a matter for the private sector alone, and the involvement of the public sector, including funding arrangements, etc., should also be discussed. Given that claim payments after a widespread natural disaster are extremely important for insurers, utilization of the latest technologies, such as digitization to improve policyholder convenience in making claims, and the use of AI to speed up damage assessment, would be beneficial.
20	We understand that this AP focuses on market conduct issues and thus emphasizes meeting consumer demand. On the other hand, on the premise of compliance with market conduct, insurers also need to conduct appropriate product design (including the setting of exclusions, etc.), pricing, risk management, and capital and solvency management. Consideration in terms of such responses made within the existing prudential framework should also be mentioned in the AP. In addition, protection gaps are a major issue that needs to be resolved by multiple stakeholders in the public and private sectors, and cannot be solved only through the conduct of insurers and insurance intermediaries. This point should also be mentioned in this AP.

	While this AP focuses on market conduct related to climate change, it is our understanding that each jurisdiction already has regulations in place to protect consumers and appropriate supervision based on these regulations. Therefore, a new supervisory and regulatory framework is not needed for climate risk market conduct, which is essentially within the scope of existing regulations and supervision for consumer protection.
21	We believe that "strengthening cooperation with industries (and/or their supervisors) other than the insurance industry" is also worth considering. If soaring repair costs increase insurance claim payments, which is one of the factors that lead to protection gaps, higher insurance premiums, etc., it is not enough to take measures within the insurance industry. It is necessary to consider measures to reduce insurance claims in conjunction with supervisors in other industries.

Draft Application Paper on climate scenario analysis in the insurance sector

Questions	Comments
2	Paragraph 1 (4th line) refers to "agreed policies", but we recognize that what has been agreed at the policy level under the UNFCCC is limited. Therefore, "agreed goals" would be more appropriate. We agree with what Paragraph 5 describes. While climate-related scenario analysis has great potential to be useful in understanding risks in the insurance sector, it is a relatively new analysis method. Therefore, the methodology and data to be used have not yet been fully established and developed toward its introduction into insurance supervision, its use in specific decision making by insurance companies (e.g., underwriting and investment), and public disclosure of its results. It is necessary to refine the method by exploring exercises among jurisdictional authorities and insurance companies.
3	Paragraph 10 describes that "supervisors should ensure that scenarios are sufficiently forward-looking". However, to "ensure" seems very difficult, because underwriting exposures at a future point in time, and vulnerabilities based on the development of disaster prevention infrastructure at a future point in time, will continue to be uncertain. The same paragraph also states that "supervisors need to consider the proportionality of exercises". We would like to confirm that the intent is to continue to make improvements in consideration of complexity and feasibility.
6	Scenario analysis can be conducted for a variety of purposes, such as understanding the risks of individual insurers, long-term (over 30 years) impacts, macroprudential impacts, and impacts on protection gaps. However, outcomes vary depending on scenario settings. To make the analysis results useful, it is extremely important to prepare in advance. It is also important to set appropriate objectives, select scenarios accordingly, and reduce insurer workload when designing scenarios. While we believe that the participation of IAIGs is necessary for scenario analysis to understand macroprudential impacts, whether it is necessary to include foreign subsidiaries within the scope should be considered depending on the purpose of the scenario analysis.
7	For the purpose of understanding macroprudential impacts, it would be appropriate to target IAIGs. However, regarding to what extent their foreign subsidiaries should be included in the scope and what scenarios would be applied to these subsidiaries, the purpose and intended outcomes of the exercise, as well as the burden on these insurers, should be considered. We agree that the scenarios to be used should be based on existing scenarios, such as NGFS scenarios. However, scenarios are not yet well established and would be continually refined. In conducting scenario analysis, scenarios should be firmly selected according to the exercise's

	objectives, the advantages and disadvantages of each scenario, and the intended outcomes. In addition, when assessing the results, the uncertainties and limitations of scenario analysis should be fully taken into account, as described in Paragraph 5. In terms of scenario analysis disclosure, it is desirable to ensure a certain degree of consistency and comparability of measurement results among insurers within each jurisdiction. From this perspective, setting a standardized approach and using common models at the jurisdictional level would be worth considering. Furthermore, while it is also important to strike a balance between global comparability and region-specific factors, considering the roles of IAIS and jurisdictional supervisors, what the IAIS's AP deals with in terms of scenario development and risk assessment should be limited to what IAIGs are effectively required to do.
9	In order to understand systemic risks, it is important to develop scenarios that take into account issues at both the national and international levels. However, it is assumed, for example, that scenario analysis to measure impacts across multiple sectors at the national level involves considerable complexity. Therefore, when conducting scenario analysis exercises, careful consideration should be given to balancing intended outcomes and workload, as well as feasibility. The impact of risk concentration on reinsurance is greatly influenced by the underwriting policies and management decisions of insurers (cedents) and reinsurers, as well as by trends in the global reinsurance market and capital markets as represented by cat bonds. Effective scenario analysis requires scenario design that takes these factors into account.
10	Throughout this AP, but especially in the second sub-paragraph of Paragraph 46 c. "Scenario analysis to inform further scenario exercises", there is an emphasis only on quantification. While we do not deny the importance of quantitative information, we believe that there is also a risk in overconfidence in quantitative information obtained by a particular model. As Paragraph 63 refers to qualitative information, we suggest that the usefulness and complementarity of qualitative information be added in Paragraph 46. Where there are common issues identified across a number of insurers within a jurisdiction, it is useful to share best practices in and out of the jurisdiction regarding individual insurers' issues.

	As for climate change financial disclosure requirements, to ensure global comparability, it is desirable to comply with IFRS S1 and S2, which were developed to be a global baseline.
11	While disclosing the results of scenario analysis is useful for the purpose of increasing transparency, in terms of disclosures, there are issues such as the uncertainty inherent in scenario analysis and the limited data available. In addition, consistency among insurers may be compromised if insurers use different data sets or different models, or if scenario analysis involves management decisions. Therefore, a cautious approach is required regarding disclosures. In order to ensure scenario analysis that contributes to meaningful disclosures, what the IAIS's AP deals with in terms of scenario development and risk assessment should be limited to what IAIGs are effectively required to do. Furthermore, as it is important to strike a balance between "global comparability" and "region-specific factors", measures such as the standardization of approaches and use of common models at the jurisdictional level should also be considered to ensure consistency and comparability of measurement results among insurers within each jurisdiction. With regard to the best practices referred to in Paragraph 51, it has not yet been determined what practices are considered best; best practices vary depending on the purpose. While we believe that sharing examples is beneficial in itself, it may have the adverse effect of undermining diversity in underwriting behavior if the actions of insurance companies are standardized into a particular set of best practices.
13	Although climate risk is an important risk to consider in the ORSA and ERM, how and to what extent scenario analysis exercises are reflected in the ORSA and ERM should be carefully considered in view of the complexity and uncertainty inherent in these exercises and the workload involved. In addition, since time horizons for climate risk scenario analysis is very different from the ones for usual ORSA and ERM, it will be necessary to consider whether existing frameworks can handle this issue.
16	Climate change risks are important to insurers and should be considered in the ORSA. Technical difficulties, such as evaluation with longer time horizons and analysis of more diverse risks (physical risks, transition risks, and litigation risks), are expected in incorporating scenario analysis in the ORSA. These should be fully taken into account. While the 1st bullet of Paragraph 65 states "should...also consider how hotter climates may impact life and health insurance liabilities", it is possible that, for some insurers, the related impact or importance are not significant enough to be included in the ORSA. Therefore, we suggest adding "when material" or changing "should" to "could also consider". Regarding the 3rd bullet in Paragraph 65, as mentioned in Paragraph 15, the likelihood of occurrence and impact of litigation risks vary greatly

	depending on the legal system of each jurisdiction. In addition, as the analysis would lack feasibility in jurisdictions where there are no past cases, conditions such as "where appropriate" or "where possible" should be added.
17	While it is useful to understand the impact of climate change risk on the interconnectedness of asset management risk and underwriting risk, as well as on assets and liabilities in ALM, scenario analysis is expected to involve complexity and technical difficulties. Therefore, consideration should be given to its feasibility and the workload on insurers. Paragraph 71 refers to investee engagement, restricted lists, and divestment lists as examples of mitigation strategies prompted by scenario analysis. However, it lacks elements of engagement to encourage transition of hard-to-abate sectors. Paragraph 70 also refers to an example of sectoral investment limits, leaving an impression that divestment is encouraged. For this AP to prevent the inducement of ill-considered divestment and to promote awareness of the importance of engagement to encourage the decarbonization of the investee, we suggest making reference to transition finance.
18	Although it is useful to understand potential breaches to the risk appetite statement through climate risk scenario analysis, the complexity, uncertainty, and technical difficulties involved in scenario analysis limit the use of the analysis results. When using the results of scenario analysis to determine breaches to the risk appetite statement, these limitations should be carefully considered. Since risks attributable to climate change have a longer-term impact than other risks, even when a risk appetite statement deals with the same risk categories, it is expected that the description will be more complex. It should also be noted that risk appetite is determined by considering various risks in the overall business portfolio, and it is not always feasible to use the results of climate risk scenario analysis for assessment in a risk appetite statement.
19	In order to recognize climate change risks as material risks and to understand the impact of these risks on the individual insurer, if relevant for such individual insurer, it is important for the board of directors to be well informed. However, the methodology for scenario analysis, the content to be reported, and the items to be discussed should be based on the insurer's risk profile, as well as the nature and size of its business. As for the 2nd sentence of the 3rd bullet of Paragraph 78 ("Management actions should be concrete, applicable within a short timeframe and tailored to the specific risk profile of the insurer"), management actions can vary depending on the time horizon and the assumptions of scenario analysis. What measures can be implemented in a short timeframe can also vary according to market conditions. Therefore, there may well be cases where management actions have to be similar to a high-level direction or something like a decision tree.

20	Box 2 describes scenario analysis and protection gaps. While we agree with this intention, there are many variables regarding protection gaps, such as consumer and reinsurer behaviors, making them difficult to handle in scenario analysis. In addition, while scenario analysis conducted by an insurer is a bottom-up analysis of the individual company's businesses, protection gaps are a macro matter. Since the scopes of the two are different, we do not believe that the former can provide a meaningful analysis of the latter. It is possible to use macro scenario analysis conducted by supervisory authorities, but even in that case, protection gaps will ultimately depend on the underwriting behavior of individual insurance companies and the purchasing behavior of consumers. Therefore, the results are likely to differ significantly depending on the assumptions and hypotheses made.
21	As for (iii), while it can be understood as a reference to litigation risks in the investee (asset side) and underwriting such as D&O (liability side), there may be differences in exposures and risk quantities for climate-related litigation risks due to differences in jurisdictional legal systems. This makes it difficult to examine whether climate-related litigation risks are effectively covered in the AP for both sides of insurer balance sheets.